

VZCZCXR06144

OO RUEHCHI RUEHDT RUEHHM RUEHNH RUEHPB RUEHTM RUEHTRO

DE RUEHGO #0112/01 0510823

ZNY CCCCC ZZH

O 200823Z FEB 09

FM AMEMBASSY RANGOON

TO RUEHC/SECSTATE WASHDC IMMEDIATE 8704

INFO RUCNASE/ASEAN MEMBER COLLECTIVE

RUEHZN/ENVIRONMENT SCIENCE AND TECHNOLOGY COLLECTIVE

RUEHBK/AMEMBASSY BANGKOK 2811

RUEHBJ/AMEMBASSY BEIJING 2199

RUEHBY/AMEMBASSY CANBERRA 1805

RUEHKA/AMEMBASSY DHAKA 5125

RUEHLO/AMEMBASSY LONDON 2061

RUEHNE/AMEMBASSY NEW DELHI 5279

RUEHUL/AMEMBASSY SEOUL 8879

RUEHTC/AMEMBASSY THE HAGUE 0695

RUEHKO/AMEMBASSY TOKYO 6451

RUEHCN/AMCONSUL CHENGDU 1715

RUEHCHI/AMCONSUL CHIANG MAI 2077

RUEHCI/AMCONSUL KOLKATA 0563

RHHMUNA/CDR USPACOM HONOLULU HI

RUEKJCS/Joint STAFF WASHDC

RUCNDT/USMISSION USUN NEW YORK 2273

RUEHGV/USMISSION GENEVA 4292

RUEATRS/DEPT OF TREASURY WASHDC

RUEKJCS/DIA WASHDC

RUEAIIA/CIA WASHDC

RHEHNSC/NSC WASHDC

RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000112

SENSITIVE

SIPDIS

STATE FOR EAP/MLS; INR/EAP; OES

PACOM FOR FPA;

TREASURY FOR OASIA:SCHUN

E.O. 12958: DECL: 02/20/2019

TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [PINR](#) [BM](#)

SUBJECT: BURMA: ONSHORE OIL PRODUCTION LIMITED

REF: A. 07 RANGOON 1036

[¶](#)B. 08 RANGOON 162

RANGOON 00000112 001.6 OF 003

Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d).

Summary

[¶](#)1. (C) Although the GOB claims Burma has untapped oil reserves of 3.5 million barrels, actual production continues to fall far short of the country's domestic needs. In 2008 onshore production averaged 10,000 barrels a day, forcing the GOB to import up to 20,000 barrels a day of oil and diesel. While state-owned Myanmar Oil and Gas Enterprise (MOGE) controls more than 70 percent of onshore fields, three private companies account for more than two-thirds of daily production. Industry analysts agree that Burma's onshore blocks contain substantial oil reserves; however, operational costs and a lack of technology and infrastructure make it nearly impossible to extract. Despite MOGE requests to develop Burma's more remote blocks, private companies have no plans for new investments, and several Chinese companies have withdrawn from their contracts. End Summary.

Producing Black Gold

[¶](#)2. (C) According to the Ministry of Energy, Burma has oil reserves totaling more than 3.5 million barrels within its territory; industry analysts estimate the true amount to be

far lower, perhaps less than one million barrels (septel). Despite alleged substantial reserves, Burma's current onshore oil production is a paltry 10,000 barrels a day, the majority of which is produced by three private companies -- Singapore-based (and Burmese owned) Myanmar Petroleum Resources Ltd. (MPRL), Indonesian-French Gold Petrol, and Swiss-owned Focus Energy. (Note: these companies are able to successfully produce because the fields continue to have oil reserves and they are using newer, efficient technology. End Note.) Burma receives 10,000 barrels of oil condensate a day from the offshore Yetagun gas fields, which means the GOB must import an additional 20,000 barrels/day from Malaysia and Indonesia to meet local demand.

Burma's Major Onshore Oil and Gas Fields
2008 Production

Company	Field Name	State/ Division	Production Daily	Claimed Reserves
MOGE	Nyaungdon	Rangoon	1069 barrels	297 bil/CF
	Apyauk	Rangoon	220 barrels	483 mil/CF
	Myanaung	Irrawaddy	51 barrels	76 mil/bar
	Letpando	Magwe	668 barrels	16 mil/bar
	Thargyitaung	Magwe	493 barrels	138 mil/bar
	Chauklanywar	Magwe	541 barrels	400 mil/bar
MPRL	Mann	Rangoon	2000 barrels	433 mil/bar
Focus	Kanni	Magwe	1900 barrels	56 mil/bar
	Htaukshabin	Magwe	607 barrels	157 mil/bar
CNPC	Pyitaung	Bago	201 barrels	50 mil/bar
Gold-	Yenangyaung	Magwe	1800 barrels	540 mil/bar

RANGOON 00000112 002.5 OF 003

Petrol

Total	9550 barrels
-------	--------------

Source: MOGE, 2008

Note: CF is cubic feet, bar is barrels

¶3. (C) Ye Myat Soe, Focus Energy Technical Coordinator, told us that although MRPL, Gold Petrol, and Focus -- the three largest oil producers -- have production contracts for their respective blocks, MOGE has indicated an interest in becoming the operator for these blocks. Focus Energy's contract for the MOGE-2 block expires in May 2009; Focus is under negotiations with MOGE to renew its contract for an additional 11 years but Focus officials have been told that the contract extension was "not guaranteed." While Gold Petrol's contract for the IOR-2 and MOGE-1 blocks is valid for several more years, the company's Acting Director Raymond Bona told us that the company may divest because it has not been paid since December 2007 (Ref A). (Note: MPRL confirmed that MOGE waits approximately one year before paying outstanding invoices. All private onshore companies face the same problem. End Note.) MPRL has a production contract for block MOGE-2 through 2014 and is not concerned with losing its block to MOGE, Country Director Terry Howe told us.

¶4. (C) Although seismic data shows that there are still oil and gas deposits in Burma, they are located deep beneath the surface under areas of high pressure, according to officials from MPRL, Gold Petrol, and Focus Energy. To tap into the remaining reserves, investors would need to employ the newest drill technology, digging on a diagonal to avoid high pressure areas. This type of drilling is not economical, particularly given Burma's infrastructure challenges -- for example, no access roads to the sites and no electricity or diesel stations to power machinery -- and the declining value of oil on the world market. Ye Myat Soe commented that the three private companies have no plans to expand production in 2009 and 2010, despite MOGE pressure to do so.

¶ 15. (C) Under Burmese law, only the state can invest in the onshore oil and gas sectors; if a foreign company wants to invest, it must enter into a joint venture with MOGE, the state-owned enterprise responsible for oil and gas production. According to Ye Myat Soe, all private companies with contracts to work or explore onshore have joint ventures with MOGE. MOGE also independently operates the remaining onshore fields. He stated that MOGE's ownership percentage varies by company and contract, but is usually between 25-50 percent. Although the joint venture contracts state that MOGE will provide funding for the projects, in all cases MOGE provides only antiquated equipment and labor and no capital, Ye Myat Soe explained. So even though the companies have JVs with MOGE, they do all the work but must share the profits.

¶ 16. (C) During the past two years, MOGE, which has limited resources, technology, and experience to develop Burma's oil and gas resources, has opened tenders on more than a dozen onshore blocks. The majority of these blocks are located in

RANGOON 00000112 003.8 OF 003

remote areas, Silverwave Energy General Manager Minn Minn Oung told us. (Note: Silverwave, which is financed by regime crony Tay Za (Ref B), signed a production contract for block B-2 in 2008. End note.) Ye Myat Soe confirmed that MOGE wants private companies to invest in the more remote blocks because of the high operational costs and difficulties accessing these areas. However, MOGE's plan has seemingly backfired: CNPC in late 2008 withdrew from its production contract because it found only gas, which is not economically viable. Other companies, such as CNOOC and Chinnery Assets, informed us that initial exploration in their blocks was too difficult given the high pressure areas and was too expensive to continue.

¶ 17. (C) Below is a list of current private onshore operators and the status of their investments:

-- Gold Petrol, producing in blocks IOR-2 and MOGE-1 (Magwe Division);
-- MPRL, producing in block MOGE-2 (Magwe Division);
-- Focus Energy, producing in block MOGE-2 (Mann Field in Magwe Division);
-- Burmese-owned Silverwave Energy, exploring in block B2 (Sagaing Division);
-- Indian-owned Essar, exploring in block L (in Rakhine State);
-- Chinese-owned Sinopec, doing data collection in block D (in Sagaing Divisions); and
-- Chinese National Offshore Oil Company (CNOOC), contract for blocks C-1, C-2 (Sagaing Division), and M (Rakhine State).

Comment

¶ 18. (C) The Burmese Government has done little long-term planning for the development of its onshore fields, many of which have been in production since the late 19th and early 20th centuries. Now that many of its onshore fields are drying up, MOGE continues to push private investors to develop new fields in increasingly remote areas. MOGE's efforts will likely fall far short of expectations, as companies are instead choosing to withdraw from existing contracts and pay the penalties rather than invest in costly and difficult exploration with little confidence of success. As the world financial crisis hits companies' pocketbooks and the world price of oil and gas continues to drop, the opportunity costs of exploring Burma's onshore blocks will increase and more companies will likely rethink their investment plans.

DINGER